

Date: March 8, 2022

To: William Hobert, Chair
Peter Amaro
Drew L. Beres
James J. Fuentes
Mayor Arlene A. Juracek
Roxanne Nava
George Obernagel

Roger Poole
Timothy Ryan
Eduardo Tobon
Jennifer Watson
Randal Wexler
Jeffrey Wright
Bradley A. Zeller

From: Christopher B. Meister, Executive Director

Subject: ***Message from the Executive Director***

Dear Member of the Authority:

Impact of Increased Market Volatility on 2022 Municipal Bond Volume

Many conduit borrowers have been pursuing market refundings on an accelerated timetable to effectuate expedited pricing and realize minimum targeted savings in advance of anticipated Federal Reserve Board (“Fed”) interest rate hikes. Recent municipal market volatility, reflecting both inflation and anticipated interest rate expectations, is now further exacerbated by the war in Ukraine, as geopolitical risks have emerged as an additional market disruptor.

As we have observed, the sudden increase in market volatility has resulted in several Illinois Finance Authority (“Authority”) borrowers with fully documented and Authority-approved transactions withdrawing their transactions from the market when market conditions indicated that minimum target pricing objectives would not be attained.

Current sentiment regarding the pace and timing of any Fed interest rate changes as well as investor demand underlying these trends were presented in **The Bond Buyer’s** February 28, 2022, article “**Munis vastly underperform UST rally.**”

- The authors offered the following observations: “*As the calendar turns to March, with the Federal Open Market Committee meeting two weeks away, analysts remain divided about whether the Fed will be aggressive or not with its first rate hike, and the Russian invasion of Ukraine adds more doubt to an already cloudy picture.*”
- The article offered several observations regarding the magnitude and pace of Federal Reserve interest rate policy including the following statement by Darrell Cronk, CIO of Wealth and Investment Management at Wells Fargo: “*The inflation picture is complicated by the Russian invasion.*” “*Debates will ensue about whether policy action should fight inflation or ensure that growth does not slow precipitously from supply or*

geopolitical shocks... We should expect central banks to continue on their path to fight inflation by tightening policy - even if the pace may be slowed slightly from the events of the Russian invasion.”

- Vikram Rai, head of Citigroup Global Market’s municipal strategy group, opined that mutual fund demand will be muted in March: *“Mutual fund flows should be in negative territory in the next three to four weeks...”*

Reduced investor demand (e.g., via net mutual fund outflows in March) would ordinarily be correlated with increased market interest yields in March 2022. Any increase in market interest rates will reduce the likelihood of any borrower attaining their minimum savings target. Accordingly, as we did at the February 8, 2022 meeting, we will present a financial forward forecast as of April 30, 2022 in this morning’s meeting.

Today’s project agenda features the following borrowers:

- ***NorthShore University HealthSystem:*** NorthShore University HealthSystem returns to the Authority for the first time following its merger with Edward-Elmhurst Healthcare. The not-to-exceed issuance amount for the Series 2022 Bonds is \$1.1 billion. Bond proceeds will be used to (1) fund new capital expenditures across the newly formed system; and (2) refund, redeem, or refund all or a portion of one or more series of outstanding Authority bonds. Included among the new money projects are facility improvements and building systems that will expand (1) the number of surgical operating rooms and recovery rooms at Skokie Hospital; and (2) cardiovascular surgical space at Glenbrook Hospital.

Overall, the estimated Refunding proceeds will total approximately \$591.2 million while the estimated New Money proceeds total approximately \$384.8 million. The Series 2022 Bonds will be sold as a combination of (1) underwritten, rated bonds based on NorthShore University HealthSystem’s long-term investment grade ratings and (2) direct, bank-purchased bonds. Additionally, a portion of the publicly sold variable rate bonds will be credit enhanced by a standby bond purchase agreement from JPMorgan Chase Bank, National Association. The newly formed system between NorthShore University HealthSystem and Edward-Elmhurst Healthcare operates a regional health system comprising nine (9) hospitals along with satellite facilities and clinics located in Cook County, DuPage County, and Lake County. The system has approximately 25,000 full-time equivalent employees.

- ***Washington and Jane Smith Community – Orland Park d/b/a Smith Crossing:*** Washington and Jane Smith Community – Orland Park d/b/a Smith Crossing, a continuing care retirement community, returns for the purpose of refunding the outstanding balance on its Series 2018 Bonds. The not-to-exceed amount for this financing is \$65 million. This refinancing will enable the Smith Crossing project to lock-in market-based fixed rates to the final maturity date, thereby eliminating bank renewal risk and interest rate/spread adjustment risk on Smith Crossing’s existing bank-held bonds. The Smith Crossing project applied for a long-term debt rating in connection with this refinancing. Fitch Ratings assigned a ‘BBB-’ rating with a

Stable Outlook as of February 23, 2022. The outstanding Series 2018 bank-held bonds were not rated. The Smith Crossing facilities in Orland Park (Will County) consists of 173 independent living units, 46 traditional assisted living units, 16 memory care assisted living units, and 92 skilled nursing beds.

- ***Erikson Institute:*** Erikson Institute returns to the Authority to refund the outstanding balance of its Series 2017A-B bank-held bonds. The not-to-exceed amount for the Series 2022 Bonds is \$25.7 million. The Series 2022 Bond will enable Erikson to (1) realize annual debt service savings and (2) effectuate a change in the underlying rate index to SOFR for the Series 2022 Bond (from a LIBOR-based index on the Series 2017 Bonds).

Erikson was established in 1966 to provide child development and education for professionals working in the recently created Head Start program. Erikson Institute offers Higher Learning Commission accredited graduate school as well as professional certificate training in child education and development. The Institute's mission has expanded over time to include applied research, childcare, and community work focused on children through age eight at high risk of academic failure. Erikson's operations occupy four floors at 451 N. LaSalle Street in Chicago. Erikson originally financed the acquisition, equipping and build-out of its 451 N. LaSalle Street facilities with \$32.5 million of IFA Series 2007 Revenue Bonds.

- ***Beginning Farmer Bonds:*** Today's agenda features two bank-purchased bond issues totaling approximately \$658,000 that will enable two first-time farmers to acquire farmland in Clinton County (near Breese) and Wabash County (near Mount Carmel and West Salem)
- ***Resolutions - Amendments:*** In addition to the new financings, today's agenda also includes two Resolutions that will authorize and approve amendments to Bond Trust Indentures relating to (1) Plymouth Place, Inc. and (2) the Rehabilitation Institute of Chicago (d/b/a Shirley Ryan AbilityLab).

Thank you for your service, Lisa Bonnett

Lisa Bonnett, a key contributor to our Climate Bank efforts and the former Director of the Illinois Environmental Protection Agency, has left the Authority for other endeavors. Lisa's many notable contributions and accomplishments include the modern Illinois State Revolving Fund/Clean Water Initiative leveraged bond program, the implementation of the Natural Gas Municipal Loan Program, and critical assistance in the drafting of what became the Authority's Climate Bank statutory language. We will miss Lisa and convey our best wishes to her as she pursues her next chapter.

Congratulations on Senate Confirmation

By a unanimous vote, the Illinois Senate confirmed Governor Pritzker's appointments of ***Peter Amaro, Drew Beres, Roxanne Nava, Roger Poole, Eduardo Tobon, and Randy Wexler*** as

Authority Members on February 22, 2022. We appreciate your decisions to volunteer your time to advance the economic development and climate finance priorities of our State.

/s/

Christopher B. Meister
Executive Director